

Business Essentials for State Taxpayers (B.E.S.T.)

*Operating a Business in Alabama:
Recordkeeping & Business Expenses*

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B.E.S.T. Webinar Series Housekeeping Reminders



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The information in this presentation is intended to be an overview. It is not a comprehensive explanation of all aspects of the subject matter, does not represent legal advice, and is not legally binding on the Department. Information regarding taxes and tax administration changes frequently and should always be confirmed through a tax professional.

Please refer to the Alabama Department of Revenue website at revenue.alabama.gov for additional information.

Purpose of this Webinar

To inform Alabama taxpayers of the requirements and guidelines for recordkeeping and determining business expenses.

This presentation will cover:

- Why keep records
- What records to keep and for how long
- Statute of limitations
- Types of business expenses
- How to document business expenses
- Burden of proof

Recordkeeping

Why Should I Keep Records?

- To monitor the progress of your business and future planning
- To prepare your financial statements
- To identify sources of income or losses
- To keep track of deductible expenses
- To keep track of your basis in property
- To prepare your tax returns
- To support items reported on your tax returns

How to Keep Records

- Recordkeeping means keeping documents in an orderly manner, which may take some discipline.
- Recordkeeping systems do not have to be complicated. It can be as simple as using folders or envelopes or a more advanced computer system. Office supply stores also have several options.
- The system should be easy to use.
- There needs to be a good place to store the records.
- The documents should be easy to retrieve.
- The system should work for you and your type of business.
- For more details, see IRS – Publication 583 at [irs.gov](https://www.irs.gov).

What Kind of Records Should I Keep?

- The business you are in will determine the type of tax records you need to keep.
- All untaxed sales must be verified and documented.
- Copies of sales tax certificates of exemption and/or retail certificates should be kept on file. (*This information makes up the customer tax exempt file.*)

What Kind of Records Should I Keep?

The law does not specify what records must be kept. However, the following may be requested:

Bank Statements,
Deposit Slips &
Canceled Checks

Credit Card
Receipts &
Statements

Paid
Invoices/Statements
(purchases & sales)

Receipts

Payroll
Information

Z-Tapes & Cash
Register Recaps
or other Sales
Documents

Sales Journal

Customer Tax
Exempt Files

How Long Should I Keep Financial Records?

- Keep records that support an item of income or expense/deduction on a return until the statute of limitations runs out for that return.
- Statute of Limitations – Period of time in which the *State of Alabama* can assess additional tax.

Statute of Limitations

Generally, all returns and amended returns	3 years from the date you file the return
Do not report income that you should report, and it is more than 25% of the gross income shown on return	6 years from the date you file the return
File a fraudulent return	Not limited
Do not file a return	Not limited
Net Operating Loss (NOL)	Until the loss is exhausted

Business Expenses

Business Expenses

- To be deductible, a **business expense** must be both **ordinary** and **necessary**.
- **Ordinary expense** is one that is common and accepted in your trade or business.
- **Necessary expense** is one that is helpful and appropriate for your trade or business.
- For more details, see IRS Publication 535, Business Expenses at [irs.gov](https://www.irs.gov).

Types of Business Expenses

- **Business Start-Up Costs** – These are generally capital expenses.
- **Improvements vs. Maintenance** – Improvements are capitalized vs. maintenance, which is deducted.
- **Depreciation** – Spreads the cost of an asset with a useful life that extends substantially beyond the year it is placed in service.
- **Cost of Goods Sold** = Beginning Inventory + Purchases – Ending Inventory

Types of Business Expenses

- **Payroll** – Wages, employer’s contribution to Social Security, Medicare, Unemployment Taxes
- **Business Use of Your Home** – Must meet specific requirements listed in IRS Publication 583 - Starting a Business and Keeping Records (see [irs.gov](https://www.irs.gov))
- **Car and Truck Expenses** – Can use actual expenses or standard mileage rate

Daily Business Mileage Log

Date	Destination (City, Town or Area)	Business Purpose	Odometer Readings			Business Miles	Personal Miles
			Start	Stop	Miles		

Note: You can keep a mileage log in a notebook and update it by hand or use a spreadsheet to continuously track your mileage. You can also use a mileage-tracking app. The key is to update your records regularly to ensure that they're precise.

Burden of Proof

- The responsibility of the taxpayer to substantiate entries, deductions, and statements made on tax returns.
- You must be able to prove certain elements (*proof of payment & supporting documentation*) of expenses in order to deduct them.

How to Prove Certain Business Expenses

	Amount	Time	Place or Description	Business Purpose Business Relationship
Gifts	<ul style="list-style-type: none"> • Cost of the gift (\$25 per person per year) 	<ul style="list-style-type: none"> • Date of the gift 	<ul style="list-style-type: none"> • Description of the gift 	
Transportation	<ul style="list-style-type: none"> • Cost of each separate expense • Car expenses, date you started using it for business • Mileage for each business use 	<ul style="list-style-type: none"> • Date of the expense 	<ul style="list-style-type: none"> • Business destination 	Purpose: Business purpose for the expense Business Relationship: N/A
Travel	<ul style="list-style-type: none"> • Cost of each separate expense for travel, lodging, and meals 	<ul style="list-style-type: none"> • Dates you left and returned for each trip • Number of days spent on business 	<ul style="list-style-type: none"> • Destination or area of travel (name of city, town or other designation) 	Purpose: Business purpose for the expense Relationship: N/A

When Can an Expense be Deducted?

- **Cash method** – Deduct business expense in the year paid.
- **Accrual method** – Deduct when:
 1. All events have occurred that fix the fact of liability, and
 2. The liability can be determined with reasonable accuracy.
- Whichever method is used to deduct expenses must be used to recognize income.

When Can an Expense be Deducted?

Example – You have work done and are invoiced in 2020 but paid the invoice in January 2021.

- If using the cash method, then the expense is deducted in 2021, when the invoice is paid.
- If using the accrual method, then the expense is deducted in 2020, when the work was done, and the invoice was received.

Taxpayer Service Centers

The Alabama Department of Revenue has nine Taxpayer Service Centers located throughout the State to assist you. The contact information for the service centers can be found at:

<https://revenue.alabama.gov/taxpayer-service-centers/>

Thank you for being ADOR's B.E.S.T.!

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<https://revenue.alabama.gov/taxpayer-advocacy/b-e-s-t-seminars/b-e-s-t-webinar-schedule/>

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<https://revenue.alabama.gov/taxpayer-advocacy/b-e-s-t-seminars/watch-modules-online/>

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